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What is the right price for a house?

It depends who's asking, and, even amid the downturn, many sellers may be asking too much.

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February 13, 2011 | By Alan J. Heavens, Inquirer Real Estate Writer

Whether any given house for sale is properly priced for the market depends on which side of the trench you are standing.

Sam Millinghausen of Ambler, a lawyer who has been looking to buy for two years, said few houses he had seen fell into the "properly priced" category.

In fact, he said, some of what he has seen is beyond belief. Take, for instance, the house repossessed by a bank after foreclosure that had three feet of standing water in the basement because the lender had turned off the electricity - and the sump pump along with it.

"I didn't want to even consider buying a house with mold issues," said Millinghausen, who has been renting.

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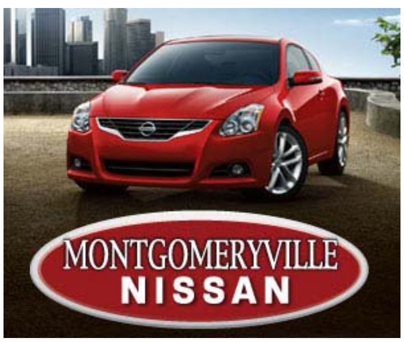

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Other houses he has seen were just as bad or much worse, with many sellers unwilling to get their properties in shape for the market. This despite surveys, such as a recent one by Coldwell Banker of 300 online consumers, that showed most prospective buyers rank a "move-in ready" home as important.

In 2002, Millinghausen sold a house in Ambler and moved to Lancaster. When he returned in 2005 to start his own law firm, he could not believe how much housing prices had risen in three years.

"I was unwilling to spend $400,000 for a house. I couldn't because I was starting a business," he said.

Realistic pricing is the key to getting the market moving, Millinghausen said. He said he believed that many agents set prices high to keep values up and that the historically low interest rates of the last 10 months or so were not much of a trade-off.

He also said he thought that interest rates had been artificially depressed and that they should be allowed to rise to their "natural level," which would allow home prices to fall.

John Duffy, owner of Duffy Real Estate on the Main Line, acknowledged that some pockets of Montgomery County, and other areas as well, saw large price increases between 2002 and the start of the housing downturn in 2007.

He also acknowledged that it was not until 18 months or more after the housing bubble burst that sellers began to abandon the belief that they could get as much money for their homes as their neighbors did when they sold at the top of the market.

"They realized that while they would be getting less for their house, they could likely pay less for the one they were buying," Duffy said.

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Certain market segments have seen deeper price drops than others, he said: Homes selling between $500,000 and $1 million are down 10 percent from the peak of the housing boom, while houses valued at $1 million and above have fallen 20 percent.

Being realistic
Duffy readily agreed that some agents will not tell sellers to ask realistic prices.
"We've turned down many listings because sellers wanted more than what the market would bear," he said. "Some of those houses have remained on the market for three or four years."

Economist Kevin Gillen, vice president at Econsult Corp. of Philadelphia, did some mortgage calculations.

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The fourth-quarter median price in the Philadelphia metropolitan area was $200,000, Gillen said. (The median is the middle number; some houses sold for more, some for less.) With 20 percent down and a 30-year rate of 5.05 percent, a buyer could get a mortgage with a principal of $160,000 and a monthly payment of $864 (insurance and other costs not included).

If rates rose to 7 percent, to keep the payment at $864, the buyer would be looking at a mortgage with a principal of $130,000 - meaning, with 20 percent down, purchasing a house worth only $162,500, or 19 percent lower in value than the $200,000 median.

For prices to be as low as Millinghausen thinks they should be "would require a massive and negative macroeconomic shock that would send unemployment up to Great Depression-type levels and induce massive liquidation of all consumer and business assets - runs on the banks," Gillen said.

Pandemonium
"If that were to actually occur, then [people] will be more worried about how to buy bottled water, canned food, and ammunition rather than a new home," he said.
Since real estate agents are paid on commission, Gillen said, they have an incentive to sell at the highest price the market will bear.

"However, to collect that commission, they also need the home to actually sell," he said. "So they face a trade-off in listing a high price and running the risk the home won't find a buyer, or selling the home at a lower price and running the risk of making less of a commission than they could have otherwise."

Gillen acknowledged that real estate agents get flak for not being honest about the true state of the market, "but the market has a way of forcing all of us to be honest."

If a home lingers while competitors' houses sell, the agent "has a strong incentive to face the truth and lower the price," Gillen said.

The speed at which they accept this truth can vary.

"The fact that, despite several years of falling house prices, we still have a huge inventory overhang of homes tells me that there is still a significant number of sellers and agents who can't handle the truth," he said.

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